(b) if so, the details thereof; and

(c) Government's reaction thereto?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) and (b) ICAI has recommended that the amount of VAT collected from customers should not be recognized as income and the same should be credited to an appropriate account.

(c) As VAT is a tax intended to replace the States' sales tax, it is a State subject. Therefore, the matter has to be considered by the Empowered Committee of State Finance Ministers/State Governments.

Exemption to Sivaganga District Central Co-operative Bank Ltd. under Banking Regulation Act

4206. SHRIMATI S.G INDIRA: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the Sivaganga District Central Co-operative Bank had applied for exemption upto 31st March, 2007 from Section 11(1) of the Banking Regulation Act before the National Bank of Agriculture and Rural Development;

(b) if so, the details thereof;

(c) whether it is also a fact that the Reserve Bank of India has asked the Sivaganga District Central Co-operative Bank not to accept or renew deposits and refund more than Rs. 1000 to deposit holders from their accounts; and

(d) if so, the details thereof and the reasons therefor?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) and (b) The Sivaganga District Central Co-operative Bank was granted exemption from complying with the provisions of Section 11(1) of the Banking Regulation Act, 1949 (AACS) upto March 31,2004. NABARD received the exemption application from the captioned bank requesting grant of exemption for the third time for the period April 1, 2004 to March 31,2007. As per NABARD's guideliries/policy approved by the Board of Supervision, if a bank fails to comply with the provision of the said Section over a continuous period of over five years or has been granted exemption twice but does not show any perceptible improvement in its financial position, the bank's license application is to be recommended to Reserve Bank of India for rejection. As per the latest quick inspection of

the bank with reference to its financial position as on 31st March, 2004, it was again found to be not complying with the relevant provisions of the BR Act, 1949 (AACS). Hence, the bank's application for the third exemption was kept in abeyance and the matter was referred to RBI for imposition of moratorium on acceptance of deposits on the basis of the decision of the Board of Supervision (for State Co-operative Banks, District Central Co-operative Banks and Regional Rural Banks) of NABARD taken its meeting held on 11th December, 2004.

(c) and (d) The Sivaganga District Central Co-operative Bank has been placed under RBI directions, *inter-alia*, prohibiting the bank from accepting fresh deposits in existing or new accounts; withdrawal of any sum exceeding Rs. 1000/- of the total balance in every saving, current or any other deposit account, and incurring any expenditure except in respect of salaries of employees, rent, rates and taxes, electricity bill, printing stationery, postage and telegram, legal expenses not exceeding Rs. 1000/- in each case etc. without prior approval of the RBI with effect from close of business on April 5,2005. The above direction was issued by RBI in public interest based on quick inspection of the bank conducted by NABARD which revealed, *inter-alia*, erosion in value of assets at Rs. 95.70 crore as on March 31, 2004 compared to Rs. 63.23 crore as on March 31, 2003, negative real value of the bank as on 31.3.2004, deposits of the bank affected to the extent of 16.9%, NPAs amounting to 35.8% of total loans and advances and the bank continuing to incur losses since 1998-99. Further, the Government of Tamil Nadu recommended the grant of further exemption to the bank but did not give any specific financial/share capital and administrative/recovery support commitment to NABARD.

Appointment of officer/employee Directors in the Board of Directors of RRBs

†4207. SHRI KRIPAL PARMAR: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that there is a provision for appointment of a director in the Board of Directors of banks as a representative of the officers/ employees working in the Nationalised Commercial Banks;

(b) if so, whether Government would consider to make a provision for appointing an officer/employee Director in the Board of Directors of the Regional Rural Banks on the lines of sponsor banks (Nationalised Commercial Banks); and

† Original notice of the question was received in Hindi.